

Southern Company

4th Quarter 2018 Earnings

December 31, 2018

Contents

<u>Press Release</u>	Page 1
<u>Financial Highlights</u>	Page 3
<u>Significant Factors Impacting EPS</u>	Page 5
<u>EPS Earnings Analysis</u>	Page 7
<u>Consolidated Earnings</u>	Page 9
<u>Kilowatt-Hour Sales and Customers</u>	Page 10
<u>Financial Overview</u>	Page 11

Media Contact: Southern Company Media Relations
404-506-5333 or 1-866-506-5333
www.southerncompany.com

Investor Relations Contact:
Scott Gammill
404-506-0901
sagammil@southernco.com

February 20, 2019

Southern Company reports fourth-quarter and full-year 2018 earnings

ATLANTA - Southern Company today reported fourth-quarter 2018 earnings of \$278 million, or 27 cents per share, compared with earnings of \$496 million, or 49 cents per share, in the fourth quarter of 2017. Southern Company also reported full-year 2018 earnings of \$2.23 billion, or \$2.18 per share, compared with earnings of \$842 million, or 84 cents per share, in 2017.

Excluding the items described in the “Net Income - Excluding Items” table below, Southern Company earned \$256 million, or 25 cents per share, during the fourth quarter of 2018, compared with \$509 million, or 51 cents per share, during the fourth quarter of 2017. For the full-year 2018, excluding these items, Southern Company earned \$3.13 billion, or \$3.07 per share, compared with earnings of \$3.02 billion, or \$3.02 per share, in 2017.

Non-GAAP Financial Measures	Three Months Ended December		Year-to-Date December	
	2018	2017	2018	2017
Net Income - Excluding Items (in millions)	\$278	\$496	\$2,226	\$842
Net Income - As Reported	\$278	\$496	\$2,226	\$842
Estimated Loss on Plants Under Construction	(6)	211	1,102	3,366
Tax Impact	(94)	(25)	(376)	(975)
Loss on Plant Scherer Unit 3	-	-	-	33
Tax Impact	-	-	-	(13)
Acquisition, Disposition, and Integration Impacts	58	16	(35)	35
Tax Impact	(11)	10	294	12
Wholesale Gas Services	41	105	(42)	57
Tax Impact	(14)	(20)	4	-
Litigation Settlement	-	-	(24)	-
Tax Impact	-	-	6	-
Earnings Guidance Comparability Items:				
Equity Return Related to Kemper IGCC				
Schedule Extension	-	-	-	(47)
Tax Impact	-	-	-	(9)
Adoption of Tax Reform	4	(284)	(27)	(284)
Net Income - Excluding Items	\$256	\$509	\$3,128	\$3,017
Average Shares Outstanding - (in millions)	1,034	1,007	1,020	1,000
Basic Earnings Per Share - Excluding Items	\$0.25	\$0.51	\$3.07	\$3.02

NOTE: For more information regarding these non-GAAP adjustments, see the footnotes accompanying the Financial Highlights page of the earnings package.

Earnings drivers for the full year 2018 were positively influenced by effects of constructive regulatory outcomes and weather at the state-regulated utilities. These impacts were partially offset by increases in depreciation and amortization, interest expense and share issuances.

“2018 was a banner year for Southern Company, as we continued to see outstanding operational execution throughout the franchise,” said Chairman, President and CEO Thomas A. Fanning. “All of our state-regulated electric and gas companies delivered strong performance. We experienced solid customer growth, and we delivered significant benefits to customers resulting from tax reform while maintaining credit metrics across our businesses. We also saw excellent progress with the construction of the new nuclear units at Georgia Power’s Plant Vogtle, achieving our year-end construction targets.”

Fourth quarter 2018 operating revenues were \$5.34 billion, compared with \$5.63 billion for the fourth quarter of 2017, a decrease of 5.2 percent. Operating revenues for the full year 2018 were \$23.50 billion, compared with \$23.03 billion in 2017, an increase of 2.0 percent.

Southern Company’s fourth quarter earnings slides with supplemental financial information, including its earnings guidance for 2019, are available at <http://investor.southerncompany.com>.

Southern Company’s financial analyst call will begin at 8 a.m. Eastern Time today, during which Fanning and Chief Financial Officer Andrew W. Evans will discuss earnings and provide a general business update. Investors, media and the public may listen to a live webcast of the call and view associated slides at <http://investor.southerncompany.com/webcasts>. A replay of the webcast will be available on the site for 12 months.

About Southern Company

Southern Company (NYSE: SO) is a leading energy company serving 9 million customers through its subsidiaries as of Jan. 1, 2019. The company provides clean, safe, reliable and affordable energy through electric operating companies in three states, natural gas distribution companies in four states, a competitive generation company serving wholesale customers across America, a leading distributed energy infrastructure company, a fiber optics network and telecommunications services. Southern Company brands are known for excellent customer service, high reliability and affordable prices below the national average. For more than a century, we have been building the future of energy and developing the full portfolio of energy resources, including carbon-free nuclear, advanced carbon capture technologies, natural gas, renewables, energy efficiency and storage technology. Through an industry-leading commitment to innovation and a low-carbon future, Southern Company and its subsidiaries develop the customized energy solutions our customers and communities require to drive growth and prosperity. Our uncompromising values ensure we put the needs of those we serve at the center of everything we do and govern our business to the benefit of our world. Our corporate culture and hiring practices have been recognized nationally by the U.S. Department of Defense, G.I. Jobs magazine, DiversityInc, Black Enterprise, Forbes and the Women’s Choice Award. To learn more, visit www.southerncompany.com.

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Southern Company
Financial Highlights
(In Millions of Dollars Except Earnings Per Share)

	Three Months Ended December		Year-to-Date December	
	2018	2017	2018	2017
Net Income—As Reported (See Notes)				
Traditional Electric Operating Companies	\$ 407	\$ (191)	\$ 2,117	\$ (193)
Southern Power	(48)	795	187	1,071
Southern Company Gas	78	(60)	372	243
Total	437	544	2,676	1,121
Parent Company and Other	(159)	(48)	(450)	(279)
Net Income—As Reported	\$ 278	\$ 496	\$ 2,226	\$ 842
Basic Earnings Per Share ¹	\$ 0.27	\$ 0.49	\$ 2.18	\$ 0.84
Average Shares Outstanding <i>(in millions)</i>	1,034	1,007	1,020	1,000
End of Period Shares Outstanding <i>(in millions)</i>			1,034	1,008
Non-GAAP Financial Measures				
Net Income—Excluding Items (See Notes)				
Net Income—As Reported	\$ 278	\$ 496	\$ 2,226	\$ 842
Estimated Loss on Plants Under Construction ²	(6)	211	1,102	3,366
Tax Impact	(94)	(25)	(376)	(975)
Loss on Plant Scherer Unit 3 ³	—	—	—	33
Tax Impact	—	—	—	(13)
Acquisition, Disposition, and Integration Impacts ⁴	58	16	(35)	35
Tax Impact	(11)	10	294	12
Wholesale Gas Services ⁵	41	105	(42)	57
Tax Impact	(14)	(20)	4	—
Litigation Settlement ⁶	—	—	(24)	—
Tax Impact	—	—	6	—
Earnings Guidance Comparability Items:				
Equity Return Related to Kemper IGCC Schedule Extension ⁷	—	—	—	(47)
Tax Impact	—	—	—	(9)
Adoption of Tax Reform ⁸	4	(284)	(27)	(284)
Net Income—Excluding Items	\$ 256	\$ 509	\$ 3,128	\$ 3,017
Basic Earnings Per Share—Excluding Items	\$ 0.25	\$ 0.51	\$ 3.07	\$ 3.02

-See Notes on the following page.

Southern Company

Financial Highlights

Notes

- (1) For the three and twelve months ended December 31, 2018 and 2017, dilution does not change basic earnings per share by more than 1 cent and is not material.
- (2) Earnings for the three and twelve months ended December 31, 2018 and 2017 include charges and associated legal expenses related to Mississippi Power's integrated coal gasification combined cycle facility project in Kemper County, Mississippi (Kemper IGCC). Additionally, the three and twelve months ended December 31, 2018 include a \$95 million credit to earnings primarily resulting from the reduction of a state income tax valuation allowance recorded in the twelve months ended December 31, 2017 related to a net operating loss carryforward associated with the Kemper IGCC. Earnings for the twelve months ended December 31, 2018 also include a \$1.1 billion charge (\$0.8 billion after tax) for an estimated probable loss on Georgia Power's construction of Plant Vogtle Units 3 and 4. These items significantly impacted the presentation of earnings and earnings per share. Additional pre-tax closure costs, including mine reclamation, of up to \$25 million for Mississippi Power's Kemper IGCC may occur through 2020. Mississippi Power is also currently evaluating its options regarding the final disposition of the carbon dioxide pipeline and is in discussions with the Department of Energy regarding property closeout and disposition, for which the related costs could be material. Further charges for Georgia Power's Plant Vogtle Units 3 and 4 may occur; however, the amount and timing of any such charges is uncertain.
- (3) Earnings for the twelve months ended December 31, 2017 include a \$32.5 million write-down (\$20 million after tax) of Gulf Power's ownership of Plant Scherer Unit 3 as a result of its 2017 retail rate case settlement.
- (4) Earnings for the three months ended December 31, 2018 include: (i) a net combined \$27 million pre-tax loss (net combined \$15 million after-tax loss) in connection with the finalization of the gain and loss calculations for the sales of Elizabethtown Gas, Elkton Gas, Florida City Gas, and Pivotal Home Solutions by Southern Company Gas and (ii) other acquisition, disposition, and integration costs of \$31 million pre tax (\$32 million after tax, which includes \$10 million related to reapportioning state income taxes as a result of the dispositions). Earnings for the twelve months ended December 31, 2018 include: (i) a net combined \$291 million pre-tax gain (\$51 million after-tax loss) on the sales of Elizabethtown Gas, Elkton Gas, Florida City Gas, and Pivotal Home Solutions by Southern Company Gas; (ii) a \$42 million (pre tax and after tax) goodwill impairment charge associated with the sale of Pivotal Home Solutions; (iii) a \$119 million pre-tax (\$89 million after tax) impairment charge associated with Southern Power's disposition of Plants Stanton and Oleander; and (iv) \$95 million pre tax (\$77 million after tax) of other acquisition, disposition, and integration costs. Earnings for the three and twelve months ended December 31, 2017 include other acquisition, disposition, and integration costs related to the acquisition of Southern Company Gas and the dispositions of Elizabethtown Gas and Elkton Gas. Further impacts are expected to be recorded in 2019 including a preliminary gain of \$2.5 billion pre tax (\$1.3 billion after tax) in connection with the sale of Gulf Power, as well as impacts related to Southern Power's announced sale of Plant Mankato. Further costs are also expected to continue to occur in connection with the integration of Southern Company Gas; however, the amount and duration of such expenditures is uncertain.
- (5) Earnings for the three and twelve months ended December 31, 2018 and 2017 include the Wholesale Gas Services business of Southern Company Gas. Presenting earnings and earnings per share excluding Wholesale Gas Services provides investors with an additional measure of operating performance that excludes the volatility resulting from mark-to-market and lower of weighted average cost or current market price accounting adjustments.
- (6) Earnings for the twelve months ended December 31, 2018 include the settlement proceeds of Mississippi Power's claim for lost revenue resulting from the 2010 Deepwater Horizon oil spill in the Gulf of Mexico. Further proceeds are not expected.
- (7) Earnings for the twelve months ended December 31, 2017 include allowance for funds used during construction (AFUDC) equity as a result of extending the Kemper IGCC construction schedule beyond November 30, 2016, as assumed when Southern Company issued its 2017 guidance. As a result, Southern Company believes presentation of earnings per share excluding these amounts provides investors with information comparable to guidance. Management also used such measures to evaluate Southern Company's 2017 performance. AFUDC equity ceased in connection with the project's suspension in June 2017.
- (8) Earnings for the three and twelve months ended December 31, 2018 and 2017 include net tax impacts as a result of implementing federal tax reform legislation, which was signed into law in December 2017. During 2018, Southern Company obtained and analyzed additional information that was not initially available or reported as provisional amounts at December 31, 2017. Additional adjustments are not expected. Southern Company believes presentation of earnings per share excluding these amounts provides investors with information comparable to guidance. Management also used such measures to evaluate Southern Company's performance.

Southern Company
Significant Factors Impacting EPS

	Three Months Ended December			Year-to-Date December		
	2018	2017	Change	2018	2017	Change
Earnings Per Share– As Reported¹ (See Notes)	\$ 0.27	\$ 0.49	\$ (0.22)	\$ 2.18	\$ 0.84	\$ 1.34
Significant Factors:						
Traditional Electric Operating Companies			\$ 0.59			\$ 2.31
Southern Power			(0.84)			(0.88)
Southern Company Gas			0.14			0.13
Parent Company and Other			(0.10)			(0.18)
Increase in Shares			(0.01)			(0.04)
Total–As Reported			<u>\$ (0.22)</u>			<u>\$ 1.34</u>

	Three Months Ended December			Year-to-Date December		
	2018	2017	Change	2018	2017	Change
Non-GAAP Financial Measures						
Earnings Per Share– Excluding Items (See Notes)	\$ 0.25	\$ 0.51	\$ (0.26)	\$ 3.07	\$ 3.02	\$ 0.05
Total–As Reported			\$ (0.22)			\$ 1.34
Estimated Loss on Plants Under Construction ²			(0.29)			(1.62)
Loss on Plant Scherer Unit 3 ³			—			(0.02)
Acquisition, Disposition, and Integration Impacts ⁴			0.02			0.21
Wholesale Gas Services ⁵			(0.05)			(0.09)
Litigation Settlement ⁶			—			(0.02)
Adoption of Tax Reform ⁷			0.28			0.25
Total–Excluding Items			<u>\$ (0.26)</u>			<u>\$ 0.05</u>

- See Notes on the following page.

Southern Company

Significant Factors Impacting EPS

Notes

(1) For the three and twelve months ended December 31, 2018 and 2017, dilution does not change basic earnings per share by more than 1 cent and is not material.

(2) Earnings for the three and twelve months ended December 31, 2018 and 2017 include charges and associated legal expenses related to Mississippi Power's integrated coal gasification combined cycle facility project in Kemper County, Mississippi (Kemper IGCC). Additionally, the three and twelve months ended December 31, 2018 include a \$95 million credit to earnings primarily resulting from the reduction of a state income tax valuation allowance recorded in the twelve months ended December 31, 2017 related to a net operating loss carryforward associated with the Kemper IGCC. Earnings for the twelve months ended December 31, 2018 also include a \$1.1 billion charge (\$0.8 billion after tax) for an estimated probable loss on Georgia Power's construction of Plant Vogtle Units 3 and 4. These items significantly impacted the presentation of earnings and earnings per share. Additional pre-tax closure costs, including mine reclamation, of up to \$25 million for Mississippi Power's Kemper IGCC may occur through 2020. Mississippi Power is also currently evaluating its options regarding the final disposition of the carbon dioxide pipeline and is in discussions with the Department of Energy regarding property closeout and disposition, for which the related costs could be material. Further charges for Georgia Power's Plant Vogtle Units 3 and 4 may occur; however, the amount and timing of any such charges is uncertain.

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Southern Company
EPS Earnings Analysis

Description	Three Months Ended December 2018 vs. 2017	Year-to-Date December 2018 vs. 2017
Retail Sales	\$0.01	\$0.05
Retail Revenue Impacts, Excluding Tax Reform Changes	(0.10)	(0.08)
Weather	—	0.18
Other Operating Revenues	—	(0.01)
Purchased Power Capacity Expense	—	0.01
Non-Fuel O&M	0.01	0.02
Depreciation and Amortization	(0.01)	(0.07)
Taxes Other Than Income Taxes	—	(0.02)
Gain on Dispositions, Net	(0.02)	(0.02)
Interest Expense	0.01	(0.02)
Other Income and Deductions	—	0.01
Impacts of Tax Reform (Ongoing Basis), Net of Amounts to be Returned to Customers	(0.04)	0.15
Income Taxes, Excluding Tax Reform	—	(0.04)
Dividends on Preferred and Preference Stock	—	0.02
Total Traditional Electric Operating Companies	\$(0.14)	\$0.18
Southern Power	(0.03)	0.02
Southern Company Gas	(0.01)	0.04
Parent and Other	(0.07)	(0.13)
Increase in Shares	(0.01)	(0.06)
Total Change in EPS (Excluding Items)	\$(0.26)	\$0.05
Estimated Loss on Plants Under Construction ¹	0.29	1.62
Loss on Plant Scherer Unit 3 ²	—	0.02
Acquisition, Disposition, and Integration Impacts ³	(0.02)	(0.21)
Wholesale Gas Services ⁴	0.05	0.09
Litigation Settlement ⁵	—	0.02
Adoption of Tax Reform ⁶	(0.28)	(0.25)
Total Change in EPS (As Reported)	\$(0.22)	\$1.34

- See Notes on the following page.

Southern Company
EPS Earnings Analysis
Three and Twelve Months Ended December 2018 vs. December 2017

Notes

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Southern Company
Consolidated Earnings
As Reported
(In Millions of Dollars)

	Three Months Ended December			Year-to-Date December		
	2018	2017	Change	2018	2017	Change
Income Account-						
Retail Electric Revenues-						
Fuel	\$ 1,012	\$ 966	\$ 46	\$ 4,283	\$ 4,095	\$ 188
Non-Fuel	2,297	2,578	(281)	10,939	11,235	(296)
Wholesale Electric Revenues	579	559	20	2,516	2,426	90
Other Electric Revenues	166	171	(5)	664	681	(17)
Natural Gas Revenues	1,048	1,045	3	3,854	3,791	63
Other Revenues	235	310	(75)	1,239	803	436
Total Revenues	5,337	5,629	(292)	23,495	23,031	464
Fuel and Purchased Power	1,334	1,245	89	5,608	5,263	345
Cost of Natural Gas	486	515	(29)	1,539	1,601	(62)
Cost of Other Sales	118	220	(102)	806	513	293
Non-Fuel O & M	1,672	1,640	32	5,889	5,739	150
Depreciation and Amortization	793	774	19	3,131	3,010	121
Taxes Other Than Income Taxes	325	309	16	1,315	1,250	65
Estimated Loss on Plants Under Construction	(8)	207	(215)	1,097	3,362	(2,265)
Impairment Charges	13	—	13	210	—	210
Gain on Dispositions, net	26	(20)	46	(291)	(40)	(251)
Total Operating Expenses	4,759	4,890	(131)	19,304	20,698	(1,394)
Operating Income	578	739	(161)	4,191	2,333	1,858
Allowance for Equity Funds Used During Construction	39	27	12	138	160	(22)
Earnings from Equity Method Investments	40	6	34	148	106	42
Interest Expense, Net of Amounts Capitalized	456	446	10	1,842	1,694	148
Other Income (Expense), net	(81)	(1)	(80)	114	163	(49)
Income Taxes	(149)	(175)	26	449	142	307
Net Income	269	500	(231)	2,300	926	1,374
Less:						
Dividends on Preferred and Preference Stock of Subsidiaries	4	6	(2)	16	38	(22)
Net Income Attributable to Noncontrolling Interests	(13)	(2)	(11)	58	46	12
NET INCOME ATTRIBUTABLE TO SOUTHERN COMPANY	\$ 278	\$ 496	\$ (218)	\$ 2,226	\$ 842	\$ 1,384

Notes

- Certain prior year data may have been reclassified to conform with current year presentation.

Southern Company
Kilowatt-Hour Sales and Customers
(In Millions of KWHs)

As Reported	Three Months Ended December				Year-to-Date December			
	2018	2017	Change	Weather Adjusted Change	2018	2017	Change	Weather Adjusted Change
Kilowatt-Hour Sales-								
Total Sales	49,539	49,915	(0.8)%		212,144	205,541	3.2 %	
Total Retail Sales-	37,973	37,705	0.7 %	0.3 %	162,182	156,507	3.6 %	0.9 %
Residential	12,475	12,034	3.7 %	2.2 %	54,590	50,536	8.0 %	1.2 %
Commercial	12,346	12,333	0.1 %	0.3 %	53,451	52,340	2.1 %	0.5 %
Industrial	12,949	13,130	(1.4)%	(1.4)%	53,341	52,785	1.1 %	1.1 %
Other	203	208	(3.1)%	(3.2)%	800	846	(5.5)%	(5.7)%
Total Wholesale Sales	11,566	12,210	(5.3)%	N/A	49,962	49,034	1.9 %	N/A

(In Thousands of Customers)

Regulated Utility Customers-	Period Ended December		
	2018	2017	Change
Total Utility Customers ¹ -	8,933	9,263	(3.6)%
Total Traditional Electric	4,685	4,640	1.0 %
Southern Company Gas ¹	4,248	4,623	(8.1)%

Notes

(1) Includes total customers of approximately 407,000 at December 31, 2017 related to Elizabethtown Gas, Elkton Gas, and Florida City Gas, which were sold in July 2018.

Southern Company
Financial Overview
As Reported
(In Millions of Dollars)

	Three Months Ended December			Year-to-Date December		
	2018	2017	% Change	2018	2017	% Change
Southern Company¹ –						
Operating Revenues	\$ 5,337	\$ 5,629	(5.2)%	\$ 23,495	\$ 23,031	2.0 %
Earnings Before Income Taxes	120	325	(63.1)%	2,749	1,068	157.4 %
Net Income Available to Common	278	496	(44.0)%	2,226	842	164.4 %
Alabama Power –						
Operating Revenues	\$ 1,316	\$ 1,433	(8.2)%	\$ 6,032	\$ 6,039	(0.1)%
Earnings Before Income Taxes	96	198	(51.5)%	1,236	1,434	(13.8)%
Net Income Available to Common	73	119	(38.7)%	930	848	9.7 %
Georgia Power –						
Operating Revenues	\$ 1,818	\$ 1,884	(3.5)%	\$ 8,420	\$ 8,310	1.3 %
Earnings Before Income Taxes	175	352	(50.3)%	1,007	2,258	(55.4)%
Net Income Available to Common	173	227	(23.8)%	793	1,414	(43.9)%
Gulf Power –						
Operating Revenues	\$ 359	\$ 372	(3.5)%	\$ 1,465	\$ 1,516	(3.4)%
Earnings Before Income Taxes	(6)	30	(120.0)%	140	229	(38.9)%
Net Income Available to Common	13	19	(31.6)%	160	135	18.5 %
Mississippi Power –						
Operating Revenues	\$ 308	\$ 271	13.7 %	\$ 1,265	\$ 1,187	6.6 %
Earnings (Loss) Before Income Taxes	24	(202)	N/M	134	(3,120)	N/M
Net Income (Loss) Available to Common	149	(556)	N/M	235	(2,590)	N/M
Southern Power¹ –						
Operating Revenues	\$ 506	\$ 478	5.9 %	\$ 2,205	\$ 2,075	6.3 %
Earnings Before Income Taxes	(14)	(17)	N/M	82	178	(53.9)%
Net Income Available to Common	(48)	795	N/M	187	1,071	(82.5)%
Southern Company Gas¹ –						
Operating Revenues	\$ 1,048	\$ 1,079	(2.9)%	\$ 3,909	\$ 3,920	(0.3)%
Earnings Before Income Taxes	67	74	(9.5)%	836	610	37.0 %
Net Income Available to Common	78	(60)	N/M	372	243	53.1 %

N/M - not meaningful

Notes

- See Financial Highlights pages for discussion of certain significant items occurring during the periods presented.

(1) Financial comparisons to the prior year were impacted by (i) Southern Company Gas' disposition of: (a) Pivotal Home Solutions on June 4, 2018, (b) Elizabethtown Gas and Elkton Gas on July 1, 2018, and (c) Florida City Gas on July 29, 2018; (ii) the disposition of Southern Power Company's ownership interest in Plants Oleander and Stanton on December 4, 2018; and (iii) Southern Power Company's sale of (a) a 33% equity interest in a limited partnership indirectly owning substantially all of its solar facilities on May 22, 2018 and (b) a noncontrolling interest in its subsidiary owning eight operating wind facilities on December 11, 2018.